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Date 4/12/91

TO : DIRECTOR, FBI
 FROM : SAC, ST. LOUIS [REDACTED]
 SUBJECT : [REDACTED]
 OO: NEW YORK

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Re Louisville teletype captioned as above dated
 4/11/91.

Enclosed herewith are news articles which have
 appeared in the ST. LOUIS POST DISPATCH daily newspaper as
 well as a letter received from a former Special Agent now
 residing in the St. Louis Division regarding the "INSLAW"
 matter.

Referenced Louisville teletype provided additional
 information regarding captioned matter through recontact with
 the subject. Enclosures are hereby being provided to
 Louisville at their request to assist the case agent at that
 location in further possible contacts with the captioned
 subject. Copies also being provided FBIHQ and New York in
 view of their interest in this matter.

2 - Bureau (Encl.)
 (2) - Louisville (Encl.)
 2 - New York (Encl.)
 1 - St. Louis
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7/28/93

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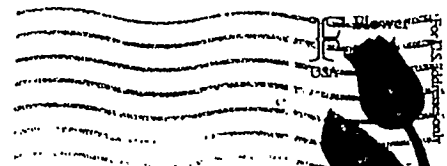
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SPECIAL AGENT IN CHARGE
FEDERAL BUREAU OF INVESTIGATION
FEDERAL BUILDING
ST. LOUIS, MO ~~63101~~

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McFarlane Implicated In Inslaw Case

Ex-Aide To Reagan Said To Have Given Software To Israeli Intelligence

By Phil Linsalata

Of the Post-Dispatch Staff

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New affidavits filed Saturday in the ongoing court battle between the Inslaw computer software company and the Justice Department charge that former White House aide Robert C. McFarlane transferred the software to Israeli officials without authorization of the owner.

One of the affidavits also claims that a former Justice Department official threatened retribution against one witness if he gives information about the case to congressional investigators.

Inslaw, based in Washington, is owned by St. Louis natives William and Nancy Hamilton. Its Promis software is used by law enforcement agencies to track cases and criminals.

But the Hamiltons have alleged that their product was stolen by the Justice Department in the course of a contract dispute, then distributed to intelligence and military agencies in Iraq, Libya, South Korea, Israel, Canada and elsewhere.

The affidavits, filed by Inslaw Saturday in federal court in Washington, say the case involves both McFarlane, who was national security adviser to President Ronald Reagan, and retired Air Force Major General Richard V. Secord.

McFarlane was implicated by former Israeli intelligence officer Ari Ben-Menashe in one of three affidavits filed.

He said McFarlane had a "special relationship" with Israeli intelligence officials and gave the software to the Israeli Defense Force's Signals Intelligence Unit in 1982. At that time, McFarlane was deputy director of the National Security Council.

It was also in 1982 that Inslaw first entered a contract with the Justice Department to provide an enhanced version of its Promis software.

McFarlane said he is "very puzzled" by the assertions, which he called "absolutely false."

The software is used to keep track of cases and criminals by municipal, state and federal prosecutors in the United States. But the Hamiltons say it is also suitable for unintended applications, such as case management by intelligence agencies or the tracking of dissidents by oppressive regimes.

The software, for example, received high marks from government security forces in Libya, according to one of three affidavits filed Saturday.

The recommendation of Libya convinced Iraqi intelligence leaders to acquire the software in late 1987 or early 1988, said Richard H. Babayan in his affidavit.

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Inslaw

From page one

Babayan is an arms trader and native of Iran. He filed his affidavit from his jail cell in West Palm Beach County, Fla., where he faces charges relating to the sale of securities in a pay telephone business.

He said Iraq got the software after a 1987 sales pitch from Secord and Dr. Earl W. Brian, an associate of Reagan and former Attorney General Edwin Meese III.

Brian's attorney, Lawrence Hirsh, said from his New York office that his client "doesn't even know any of these players and is extremely frustrated at people making things up about him."

"There is not a shred of truth in any of the affidavits," Hirsh said.

Brian is an owner of a holding company, Infotechnology, which has interests in Financial News Network, United Press International and Hadron Inc. of Fairfax, Va.

Hadron made an aggressive buyout offer for Inslaw one year after the contract began, in March, 1982, according to court records. The contract was valued by Hamilton at about \$10 million.

One month after Inslaw rebuffed the Hadron buyout offer, the Justice Department stopped payment to Inslaw, leading to a protracted bankruptcy case and a ruling that the Justice Department got the Promis software by "trickery, fraud and deceit."

That finding was upheld in one appeal but the Justice Department is appealing anew to the U.S. Circuit Court of Appeals.

The affidavit by Babayan and others indicate that while the Hamiltons fought their battle against the Justice Department, their software was being marketed around the world — with the blessing of U.S. government officials.

Babayan said he had been told of the software transactions by Abu Mohammed, a "senior ranking official" in Iraq's intelligence and security force.

During 1988 visits to Iraq, Babayan said in his affidavit, "I was informed that Dr. Earl W. Brian had, in fact, provided the Promis computer software to the Government of Iraq through a transaction that took place under the umbrella of Mr. Sarkis Saghalian," a Florida resident now under indictment on charges relating to the supply of arms to Iraq.

Babayan states that Libya "had by then made extensive use of Promis, and that the government of Libya was highly recommending the Promis software to other countries... one of the principal reasons for the decision of the government of Iraq to acquire Promis."

His affidavit also charges that Brian helped supply the software to South Korea's Central Intelligence Agency.

Another affidavit was filed by a self-proclaimed computer software writer and arms technician, Michael J. Reconsciuto, who claims he was retained to modify the software for use in law enforcement and intelligence agencies worldwide.

Brian was "spearheading the plan," states Reconsciuto, who has a criminal

ial record for conspiracy to manufacture controlled substances. He describes Brian as "a private businessman who lives in Maryland and who has maintained close business ties with the U.S. intelligence community for many years."

Reconosciuto states that he worked on the software in 1983 and 1984 in his capacity as research director for a now-defunct joint venture between the Wackenhut Corp. of Coral Gables, Fla., and the Cabazon Indian tribe, which provided a secluded operations base on its reservation in the desert of Southern California.

The joint venture "maintained close liaison" with U.S. intelligence forces, Reconosciuto states. It was formed to develop sophisticated arms "including night vision goggles, machine guns, fuel-air explosives, and biological and chemical warfare weapons," according to the affidavit.

The Contras in Nicaragua represented one of the most important priorities for the joint venture, his affidavit states.

Representatives of Wackenhut Corp. could not be reached for com-

ment Saturday.

Reconosciuto states that the software came to him via the Justice Department officer responsible for buying the software from Inslaw, Peter Videnieks, who gave it to Brian for delivery to Reconosciuto. He states that he readied the software for Canadian police and intelligence authorities.

In his affidavit, Reconosciuto also said he was warned by Videnieks to keep quiet if questioned by staff members of the House Judiciary Committee. The committee is investigating the Inslaw matter.

Videnieks threatened that if Reconosciuto talked to investigators, he would be implicated in an unrelated criminal case and would lose an ongoing child custody case in which his wife is involved, according to the affidavit.

The threats came during a telephone conversation in February, according to Reconosciuto's affidavit.

By way of underscoring his power to influence such decisions at the U.S. Department of Justice, Reconosciuto stated, Videnieks told him of a secret

indictment against Reconosciuto's business associates "prior to the time when that indictment was unsealed and made public."

Videnieks' attorney, Laurence Eisenstein, said Videnieks would have no such power because he had not been a prosecutor while in the Justice Department and had left there for a post in the U.S. Customs Service by September 1990.

Eisenstein said the allegations "are absolutely untrue, utterly ridiculous and have no basis in fact that we know of."

"Mr. Videnieks has not made any threat or anything resembling a threat and at the time does not remember having met anyone named Reconosciuto," said Eisenstein. He represents Videnieks before the House Judiciary Committee.

Inslaw filed the affidavits in federal court in the District of Columbia. They were submitted in support of a request for new subpoena power and to have their matter removed from bankruptcy court to be heard by a district court judge.

Justice Agency Ordered To Act On Software

By Robert L. Koenig

Post-Dispatch Washington Bureau

WASHINGTON — Breaking a legal logjam, a federal judge ordered Monday that the Justice Department provide information that may help determine whether U.S. officials violated a court injunction by distributing stolen software to key law enforcement agencies.

Chief Judge Aubrey E. Robinson Jr. of the U.S. District Court for the District of Columbia gave Justice Department officials 30 days to respond to requests for information made by Inslaw, a computer software firm owned by St. Louis natives William and Nancy Hamilton.

As part of their request, the Hamiltons have asked that the Justice Department identify agencies — including the FBI and the Drug Enforcement Administration — that have access to Promis, a software program developed by Inslaw. Promis is used by law enforcement agencies to track criminals, but it also can be used by oppressive regimes to monitor dissidents.

The Hamiltons said they hoped to use the new court-ordered informa-

tion to broaden the Inslaw case to include their allegations that the Justice Department distributed the pirated software to foreign military and intelligence agencies.

"There ought to be a full, fair and impartial investigation," said former U.S. Attorney General Elliot L. Richardson after the court hearing. "This [case] goes to the heart of the integrity of the Department of Justice as an institution."

Richardson, whose law firm has represented Inslaw in some aspects of its legal battle, said he hoped Monday's court order "proves to be an important turning point in the case."

The Justice Department also tried to make the court hearing a turning point for Richardson, seeking to disqualify him from representing Inslaw because of a debt involving his law firm. But Robinson allowed Richardson to speak on Inslaw's behalf.

The Hamiltons started their legal battle against the Justice Department eight years ago, and a bankruptcy judge later found that department officials had stolen the Promis software from Inslaw "through trickery, fraud and deceit." A U.S. District Court upheld that judgment, but the Justice Department then appealed anew before the U.S. Court of Appeals.

During this process, a court order bars the Justice Department's use or distribution of the Promis software beyond the offices where Promis was in use when the dispute arose. The Hamiltons contend that other agencies in the Justice Department now use that pirated software.

In addition, the Hamiltons and others have alleged in sworn statements recently filed in court that the software was sold illegally to the governments of Iraq and Israel and that Canada is using the Promis software illegally in some 900 locations.

Attorneys for the Justice Department argued Monday that the Hamiltons' allegations were based solely on "hearsay" and contended that even if foreign governments used Promis, people or companies outside the Justice Department could have provided that software.

"This stuff is all over the country. We are not the sole possessors of this software," said Allen Lear, a Justice Department lawyer. "If you believe that Iraqi military intelligence has Promis software, it does not follow that they got it from the U.S. Justice Department."

Violin Stolen In '87 Is Recovered Intact

TURIN, Italy (AP) — A Stradivarius violin that once belonged to Czar Nicholas II has been recovered in the same northern town where it was stolen from a car in 1987, police said Monday.

The violin, belonging to the French musician Pierre Amoyal, is valued at more than \$2.6 million. It had been

stolen from Amoyal's unattended car in the town of Saluzzo, near Cuneo.

Carabinieri police said they arrested two men and two women, all Italians, for investigation of receiving stolen property. They made the arrests Saturday after stopping a car near the Saluzzo train station and finding the violin in the car.

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Inslaw Figure Jailed After Threat Claim

By Phil Linsalata
Of the Post-Dispatch Staff

A witness in the legal battle between the Justice Department and the Inslaw computer software company was jailed without charges in a rural part of Washington state over the weekend.

The witness, Michael J. Reconsciuto, said a former Justice Department official had threatened him with criminal prosecution if he talked about the Inslaw case, in which the Justice Department is accused of stealing the software from Inslaw.

He was arrested less than a week after the Post-Dispatch reported Reconsciuto's sworn statement that he had helped prepare Inslaw's Promis software for distribution to Canada and other foreign countries in 1983 and 1984.

Reconsciuto, 42, was put in the Snohomish County jail in Everett, Wash., late Friday.

A jail official said he was being held for the U.S. Marshal's office.

Reconsciuto said in a telephone interview Sunday from the jail that he believed he would be charged with delivery or conspiracy to deliver a wholesale quantity of methamphetamine, a controlled stimulant.

Reconsciuto, another man and a woman were arrested by more than a dozen U.S. Drug Enforcement Administration agents as the three drove from a marina in Pierce County, near Tacoma, Wash.

In his affidavit, he also said he had been threatened in February by a former Justice Department official.

The official warned in a telephone call that if Reconsciuto talked about the case he would be the victim of a criminal prosecution in an unrelated savings and loan case and would suffer an unfavorable outcome in a child custody dispute, according to Reconsciuto's affidavit.

Reconsciuto said he had recorded the telephone conversation in which, he alleges, he was threatened by the former Justice Department official.

He said two copies of that recording were confiscated when he was arrested Friday but that at least one other copy remained in a secured location.

In the telephone interview Sunday from jail, Reconsciuto said one of the arresting officers had told him: "Keep your mouth shut."

"He said I was my own worst enemy and that I have a big mouth," Reconsciuto said.

Reconsciuto's attorney, John M. Rosellini, said in a telephone interview from Seattle that he believed his client would be charged in a hearing this morning.

"Everything is falling in line with what Michael predicted would happen in his affidavit. This is his own prediction come true," Rosellini said.

Officials in Seattle of the U.S. Marshal's office and the Drug Enforcement Administration could not be reached for comment.

Inslaw is a company based in Washington, D.C., and owned by St. Louis natives William and Nancy Hamilton.

The company won a case in which the Justice Department was found to have stolen Inslaw's software in the course of a dispute that began in 1982, when Inslaw was contracted to provide new case management software for the agency.

William Hamilton valued that contract at about \$10 million.

That ruling was upheld on appeal, but the Justice Department is appeal-

Reconsciuto said he had recorded the telephone conversation in which, he alleges, he was threatened by the former official.

ing anew.

The Hamiltons now charge that the Justice Department illegally distributed their software to military and intelligence agencies in Iraq, Libya, South Korea, Singapore, Israel, Canada and other nations.

The software is used for tracking cases and criminals, but it also could be used by oppressive regimes to track dissidents, the Hamiltons say.

Last week in Washington, D.C., U.S. District Judge Aubrey Robinson ruled in favor of a request by Inslaw that the case be heard in U.S. District Court instead of Bankruptcy Court, where a succession of judges has heard the matter.

Robinson, chief judge of the federal district in Washington, declared that he would hear the case himself.

Reconsciuto's affidavit was filed in support of a request by Inslaw to win renewed rights to subpoena witnesses and evidence in its case.

Robinson had suspended such "discovery" rights in 1988, before the Hamiltons began to hear allegations that their software had been distributed to foreign countries.

Robinson said he would hear arguments on the request for renewed discovery this month.

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